

“MP 305”



BUDGET AND REVIEWED IDP
2015/16 TO 2016/17

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Part 1 – Annual Budget

Mayor's Report

To be included after the budget speech

Council Resolution

1. That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the annual budget of the municipality for the financial year 2015/16; and indicative allocations for the two projected outer years 2016/17 and 2017/18; and the multi-year capital appropriations **BE APPROVED**;
2. That the principles and budget assumptions upon which both the Operating Budget and Capital Budget have been based **BE NOTED**;
3. That in terms of section 24(2)(c)(i) of the Municipal Finance Management Act, 56 of 2003, and sections 74 and 75A of the Local Government Municipal Systems Act, 32 of 2000 as amended, the tariffs for the supply of water, cleansing services, sanitation services property rates and sundry tariffs as set out “Annexure C” **BE APPROVED** for accounts rendered with effect from 1 July 2015;
4. That, pending approval by NERSA, the 12.20% the proposed increase on electricity tariffs, for the supply of electricity accounts rendered with effect from 1 July 2015, **BE APPROVED**;
5. That the Draft 2015/16 budget together with the related policies as tabled, **BE SUBJECTED** to community participation through public meetings to be held in all wards;
6. That the proposed tariffs increase as indicated in “Annexure C” **BE CONSULTED WITH THE COMMUNITY**;
7. That the annual salary increase of 6.8% **BE NOTED**, pending the outcome of the new collective salary agreement between SALGA and labour unions;
8. That provision **BE MADE** for a 8.0% estimate increase in the salaries of councillors, of which final approval is still to be announced in terms of Public Office Bearers Act;
9. That Heads of Department Ensure that the revenue and expenditure of their relevant department/section is monitored regularly, and, should it be found that the estimate revenue would not be realised, the Budget and Treasury Office **BE ADVISED** accordingly in order for the revenue budget to be adjusted during the budget adjustment process;
10. That Capital expenditure to be financed from grants and other external mechanisms **BE IMPLEMENTED** after the funds secured have been confirmed in writing and/ or received;

11. That the proposed capital budget **BE ENTIRELY BASED** on the IDP priorities in order to achieve National targets on service provision;
12. That in terms of the Indigent Policy, the monthly gross household earnings for the approval as an indigent household application **BE CAPPED** at R4 200;
13. That it **BE APPROVED** that only indigent customers will be provided with the free basic services;
14. That the level of subsidisation of indigent customers in terms of the Indigent Policy **BE DETERMINED** as follows:
 - a. Water - 6 kl per month
 - b. Electricity - 50 kwh per month
 - c. Basic Electricity
 - d. Basic Water
 - e. Basic Sewerage
 - f. Refuse Removal
15. That the security deposits payable by customers be increased as follows:
 - a) Water – R318
 - b) Electricity (Conventional Meter Residential) – R742
 - c) Business – Minimum R3710
 - d) Administration Fee (First Time Connection Fee – Excl Indigent Households) – R100
16. That the following Budget Related Policies **BE SUBMITTED** to a policy review workshop prior to the public consultation process:
 - a) Credit Control & Debt Collection Policy
 - b) Supply Chain Management Policy.
 - c) Property Rates Policy
 - d) Tariff Policy
 - e) Bad Debt Provision & Write-off Policy
 - f) Budget Policy (& Virement Policy)
 - g) Asset Management Policy
 - h) Petty Cash Policy
 - i) Indigent Policy
 - j) S & T Policy
 - k) Banking & Cash Policy
17. That Council **DETERMINES** a public consultation schedule and that adverts be placed in the local press.

Executive Summary

The application of sound financial management principles for the compilation of Lekwa Local Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The 2015 Budget Review notes that the global economic outlook has weakened and the pattern of slow growth is likely to persist, with consequences for all developing economies. South Africa's gross domestic product (GDP) forecast for 2015 has also been revised down. The National Treasury projects GDP growth of 2 per cent in 2015, rising to 3 per cent by 2017. Average growth over the forecast period is 0.4 percentage points lower than at the time of the 2014 Medium Term Budget Policy Statement. Inadequate electricity supply, however, will impose a serious constraint on output and exports over the short term.

The slowdown in economic growth since 2012 has highlighted structural constraints in the domestic economy. Achieving faster sustainable growth and large-scale job creation will require structural shifts in the economy, stronger supply-side value chains, higher exports, moderation in wage increases and, crucially, growing private-sector investment based on confidence in the long-term business environment.

Fiscal constraints mean that transfers to municipalities will grow more slowly in the period ahead than they have in the past. Accordingly, municipalities must renew their focus on core service delivery functions and reduce costs without adversely affecting basic services. Furthermore they must ensure that efficiency gains, eradication of non-priority spending (cost containment measures) and the reprioritisation of expenditure relating to core infrastructure continue to inform the planning framework.

The state of the economy has an adverse effect on the consumers. As a result municipalities' revenues and cash flows are expected to remain under pressure. Furthermore municipalities should carefully consider affordability of tariff increases, especially as it relates to domestic consumers while considering the level of services versus the associated cost.

The 2015/16 MTREF is an important milestone for the current Municipal Council bearing in mind the council commenced their term with a deficit on the budget for operations, accumulated debts under investment in repairs and maintenance of infrastructure amongst other challenges.

During the recently held strategic session certain key issues were raised that required to be incorporated in the 2015/16 MTREF, the issues included amongst others:

- Ageing infrastructure Water Treatment Plant & Water Reticulation
- Problems with water quality due to seasonal algae
- High mast lights and street lights not functional
- Our roads are not good 185km roads that are still gravel.
- Skills shortage
- Inadequate income for operational purposes
- The ongoing difficulties in the national and local economy
- The increased cost of bulk water and electricity (due to tariff increases from Rand Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Inability to attract and sustain investors
- Poor relationship between the Municipality and Business community
- Interruption of water supply, electricity supply and refuse removal

Challenges identified above should be confronted with velocity of a bull. Failure to do so would create pitfalls that would be insurmountable where in some instances public representatives would be treated like lepers within the community they ought to serve.

The municipality undertook the project of revenue enhancement, data cleansing as well as to implement credit control which assisted in ensuring the completeness of the revenue generated from service charges. Personnel will be appointed to test completeness and accuracy of revenue as well as to provide assurance. The effective implementation of credit control still remains a challenge due to lack of adequate resources to ensure continuous implementation. The municipality has further appointed a service provider to deal with revenue loss from sales of electricity through on line meters as well as to deal with revenue loss from sale of water through the water demand and conservation programme.

The Municipality must strive, within its financial and administrative capacity, to ensure that the provision of services to communities in a sustainable manner.

The following budget principles and guidelines directly informed the compilation of the 2015/16 MTREF:

- The 2014/15 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2015/16 annual budget;
- The 2013/14 audit come
- The 2014/15 mid-year assessment
- Annual Strategic planning session outcome
- Vision 2030 in the National Development Plan (NDP)
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2015/16 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview

MP305 Lekwa - Table A4 Budgeted Financial Performance (revenue and expenditure)								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Total Revenue (excluding capital transfers and	343 115	431 172	422 526	490 216	536 829	641 288	698 413	763 739
Total Expenditure	464 933	628 264	617 479	683 050	633 739	730 140	753 301	781 990
Surplus/(Deficit)	(121 818)	(197 092)	(194 953)	(192 834)	(96 910)	(88 851)	(54 888)	(18 251)

The operating income has increased from R 343 million in the 2011/12 financial period to R 641 million in the 2015/16 financial period. This reflect a growth of R 298 million over the 5 years period. The revenue is still expected to increase to R 763 million by 2017/18 financial period. The expenditure has also seen an increase of R 266 million over the past 5 year period from R 464 million in the 2011/12 financial period to R 730 million in the 2015/16 financial period. The expenditure is expected to increase with an additional R 51 million by 2017/18. The operating deficit has also decreased with R 33 million over the 5 year period from R 121 million to R 88 million in the 2015/16 financial year and subsequently it is further expected to decrease to R 18 million by 2017/18 MTREF. This is possible through vigorous financial management which include revenue and expenditure management whilst ensuring that operations are economical, effective and efficient.

The capital budget of R 32 million is funded mostly from grants & subsidies received from National Government. The capital budget has declined over the years from R 44 million in the 2011/12 financial period. This is further influenced by the reduction in allocation of grants from the National Government as well as the municipality to generate adequate surpluses which could be utilised as reserves for funding internal projects. The reduction in the capital grant allocations has further placed a burden in the Municipality's operations thus resulting in service delivery backlogs. For cash generating assets the Municipality should consider raising a debt for acquiring and financing these sort of assets as the revenue generated can be utilised towards servicing this debt.

Operating Revenue Framework

The Municipality continues improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues. Since the operating overheads exceeds the revenue it is crucial for the Municipality to start operating differently and investing more time and efforts in other revenue generating mechanisms.

Municipal revenues and cash flows are expected to remain under pressure in 2015/16 due to the state of the economy; therefore the municipality should adopt a conservative approach when projecting their expected revenues and cash receipts. Municipality should also pay particular attention to managing all revenue and cash streams effectively, by paying particular attention to their revenue management processes and procedures.

The total anticipated revenue to be generated amounts to R 641 287 674 which will increase to R 763 739 406 in the 2017/18 financial period. The increase in revenue is attributable to the implementation in the new general valuation roll, expected in growth in electricity from the installation of on line meters,

as well as the increased revenue from the agencies fees. The other revenue mix do not yield a significant growth.

The municipality undertook the project of revenue enhancement, data cleansing as well as to implement credit control which assisted in ensuring the completeness of the revenue generated from service charges. Personnel will be appointed to test completeness and accuracy of revenue as well as to provide assurance. The effective implementation of credit control still remains a challenge due to lack of adequate resources to ensure continuous implementation. It should be noted that electricity contributes a large portion to the total municipal revenue and the Municipality cannot always rely on revenue from sale of electricity as the only means of funding the budget. The current high increases in tariffs, the use of alternative energy sources as well as the rolling load shedding will affect the revenue realised from this revenue source.

Adequate revenue management remains an integral part of the operations of the Municipality as this will assist in rendering of decent level of services to the community of Lekwa. The Municipality should further investigate other means and mechanism of ensuring that all services rendered by the Municipality yield significant revenue to ensure that operations are continuous.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development through private sector investment;
- Efficient revenue management, which aims to ensure a 80 per cent annual collection rate for key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Revenue enhancement Strategy:
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Revenue management policies of the Municipality
- Continuous implementation of credit control and debt collection.

The table below indicates the movement in the approved budget per revenue sources as well as the proposed 2015/16 MTREF.

Summary of revenue classified by main revenue source

MP305 Lekwa - Table A4 Budgeted Financial Performance (revenue and expenditure)								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue By Source								
Property rates	37 301	66 365	38 731	52 600	60 540	64 778	69 312	74 164
Service charges - electricity revenue	136 699	174 886	180 418	227 984	227 984	321 798	361 057	405 106
Service charges - water revenue	30 862	37 664	32 363	40 978	42 782	45 777	48 981	52 410
Service charges - sanitation revenue	21 248	21 707	23 004	24 730	24 499	26 214	28 049	30 012
Service charges - refuse revenue	9 790	12 164	9 932	13 861	14 037	15 020	16 071	17 196
Rental of facilities and equipment	(353)	651	564	595	589	630	675	722
Interest earned - external investments	726	837	1 299	255	1 018	1 089	1 165	1 247
Interest earned - outstanding debtors	18 450	14 110	18 273	18 200	24 262	25 960	27 778	29 722
Fines	2 166	271	1 755	2 907	502	544	590	640
Agency services	12 412	18 591	31 283	16 331	48 857	52 277	55 937	59 853
Transfers recognised - operational	73 251	81 942	83 760	90 235	90 235	85 557	87 026	90 755
Other revenue	563	1 983	1 144	1 540	1 525	1 644	1 771	1 912
Total Revenue (excluding capital transfers and contributions)	343 115	431 172	422 526	490 216	536 829	641 288	698 413	763 739

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise R 473 million (73.8%) of the total revenue mix. This increases to R 523 million and R 578 million in the respective two outer financial years of the MTREF. A notable trend is the increase in the total percentage revenue generated from rates and sale of electricity which increases from 50 per cent in 2011/12 to 60 per cent in 2015/16. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity.

Property rates contributes 10 per cent or R 64 million rand of the total revenue mix and increases to R 74 million by 2017/18. The other sources of revenue is 'other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, transport fees and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers decreased from R 87 million for 2014-15 to R85 million in the 2015/16 financial year and steadily increases to R 90 million by 2015/16. The average growth of 6% over the 201516 MTREF is less than the 14% growth experienced in the 2011-12 MTREF. This is a clear indication that the National Government is advocating to the Municipality that they should not rely on grants received from National Government but should rather strengthen their own internal revenue generating mechanism.

The capital grants and transfer has decreased from R 56 million in 2011/12 to R 30 million in the 2015/16 MTREF. The total growth by 2017/18 is limited to R 3 million.

The following table gives a breakdown of the various operating & capital grants and subsidies allocated to the Municipality over the medium term:

Operating Transfers and Grant Receipts

MP305 Lekwa - Supporting Table SA18 Transfers and grant receipts								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
RECEIPTS:								
Operating Transfers and Grants								
National Government:	73 178	84 124	87 830	87 568	87 568	85 557	87 026	90 755
Local Government Equitable Share	69 959	79 068	81 320	85 034	85 034	83 027	84 444	88 022
Finance Management	1 713	1 250	1 550	1 600	1 600	1 600	1 625	1 700
Municipal Systems Improvement	1 506	800	890	934	934	930	957	1 033
Other transfers/grants [insert desc]	–	3 006	4 070					
Total Operating Transfers and Grants	73 178	84 124	87 830	87 568	87 568	85 557	87 026	90 755
Capital Transfers and Grants								
National Government:	56 621	43 525	84 434	36 684	36 684	30 851	34 970	33 456
Municipal Infrastructure Grant (MIG)	53 783	41 780	59 004	33 994	33 994	27 978	28 970	30 456
Neighbourhood Development Partnership		1 745						
Integrated Electrification Programme	1 389			1 500	1 500	1 700	6 000	3 000
Expanded Public Works Programme	1 449			1 190	1 190	1 173		
Other capital transfers/grants [insert desc]			25 430					
Provincial Government:	–	–	–	–	20 000	–	–	–
Human Settlement					20 000			
District Municipality:	–	–	–	–	2 000	–	–	–
Rising Main Project					2 000			
Other grant providers:	–	–	–	–	–	–	–	–
Total Capital Transfers and Grants	56 621	43 525	84 434	36 684	58 684	30 851	34 970	33 456
TOTAL RECEIPTS OF TRANSFERS & GRANTS	129 799	127 649	172 264	124 252	146 252	116 408	121 996	124 211
<u>References</u>								

Tariff-Setting

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality. The municipality further made use of the tariff models that was provided by SALGA.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of Eskom 14.25% bulk tariffs is far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the control of the Municipality. Discounting the impact of these price increases in and the fact that Municipality are only allowed and increase of up to 12% which result in lower consumer tariffs, this will erode the Municipality's future financial position and viability hence the municipality finds itself in the current predicament it is in now.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions.

2015/16 – 2017/18 Proposed tariff increases are as follows:

	2015/16	2016/17	2017/18
Rates	6%	6%	6%
Cleansing	6%	6%	6%
Sewer	6%	6%	6%
Water Consumption	6%	6%	6%
Water Basic	6%	6%	6%
Electricity	12.2%	12.2%	12.2%

Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0.25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 40 per cent will be granted to owners of rate-able residential property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed R 3600.
- The Municipality may award a 100 per cent grant-in-aid on the assessment rates of rate-able properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Executive Mayor or the Municipal Manager in the prescribed format for such a grant.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2015/16 financial year based on a 6 per cent increase from 1 July 2015 is contained below:

CATEGORY	IMPERMISSIBLE PER PROPERTY	Current Tariff 1 July 2014 TARIFF CENTS IN THE RANDS	Proposed Tariff 1 July 2015 TARIFF CENTS IN THE RANDS
Residential 1 (houses)	R 15000	0.008265	0.009844
Residential 2 (sectional share titles)		0.008265	0.009844
Multi purpose use		0.009641	0.011483
Farms/agricultural – business		0.002066	0.002461
Agricultural properties		0.002066	0.002461
Industrial		0.009641	0.011483
Residential 4 (business)		0.009641	0.011483
Government (exl 20% rebate)		0.011191	0.013328
Public service infrastructure (psi)		0.002066	0.002461
Public benefit organization		0.002066	0.002461

Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective.

Better maintenance of infrastructure, installation of bulk water infrastructure, replacement of AC pipes in Lekwa Local Municipality, the water conservation & demand management as well cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

A tariff increase of 6% per cent from 1 July 2015 for water is proposed. In addition 6 kℓ water per 30-day period will again be granted free of charge to all registered indigent households.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

2015-16 TARIFFS - ANNEXURE C	SCALE	2014/2015	2015/2016	2016/2017	2017/2018
WATER		7.50%	106.00%	106.00%	106.00%
BASIC WATER		27.94	1.68 29.62	1.78 31.39	1.88 33.28
DOMESTIC BUSINESS	1-10 KL	4.80	0.29 5.09	0.31 5.40	0.32 5.72
70101	11-25KL	5.95	0.36 6.31	0.38 6.69	0.40 7.09
70201	26-50 KL	8.63	0.52 9.15	0.55 9.69	0.58 10.28
	51-9999KL	12.16	0.73 12.89	0.77 13.67	0.82 14.49
SCHOOLS & GOVERNMENT	1-10 KL	4.80	0.29 5.09	0.31 5.40	0.32 5.72
70701	11-25 KL	5.95	0.36 6.31	0.38 6.69	0.40 7.09
	26-9999 KL	8.63	0.52 9.15	0.55 9.69	0.58 10.28
FARMS INSIDE MUNICIPAL BC	1-10 KL	5.30	0.32 5.62	0.34 5.96	0.36 6.31
70501	11-25KL	6.59	0.40 6.98	0.42 7.40	0.44 7.85
	26-50 KL	9.75	0.59 10.34	0.62 10.96	0.66 11.61
	51-9999KL	13.81	0.83 14.64	0.88 15.52	0.93 16.45
INDUSTRIES 070301		5.96	0.36 6.32	0.38 6.70	0.40 7.10
MORGENZON	1-10 KL	4.80	0.29 5.09	0.31 5.40	0.32 5.72
	11-25KL	5.95	0.36 6.31	0.38 6.69	0.40 7.09
	26-50 KL	8.63	0.52 9.15	0.55 9.69	0.58 10.28
	51-9999KL	12.16	0.73 12.89	0.77 13.67	0.82 14.49
FREE WATER	6KL	26.82	1.61 28.43	1.71 30.13	1.81 31.94

Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 14.24 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2015.

Considering the Eskom increases, the consumer tariff had to be increased by 12.20 per cent to offset the additional bulk purchase cost from 1 July 2015. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge.

It should further be noted that NERSA has advised that Municipality should continue using the inclining block tariff structure. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor).

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge to the Municipality. Most of the suburbs and inner city reticulation network was designed or strengthened in the early 1980's with an expected 20-25 year life-expectancy. The upgrading of the Municipality's electricity network has therefore become a strategic priority, especially the substations, transmission lines as well as upgrading from 55 MVA to 100 MVA.

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure. It is estimated that special funding for electricity bulk infrastructure to the amount of R 270 million per year for the next three years will be necessary to steer the Municipality out of this predicament.

Owing to the high increases in Eskom's bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the municipal electricity tariff – as the resultant tariff increases would be unaffordable for the consumers. It is therefore proposed that the taking up of loans as a strategy for funding of the infrastructure be considered and approved to spread the burden over the life span of the assets.

The following table shows the impact of the proposed increases in electricity tariffs.

		Current Proposed Year MTREF			
		2014/15 Budget	2015/16 Budget	1+ 2016/17 Budget	2+ 2017/18 Budget
ELECTRICITY DOMESTICS		107.39%	112.20%	114.24%	114.24%
Indigents (Low prepaid)		31.9	R 35.79	R 40.89	R 46.71
BLOCK TARIFF	0-50	R 0.72	R 0.79	R 0.90	R 1.03
BLOCK TARIFF	51-350	R 0.91	R 1.00	R 1.14	R 1.31
BLOCK TARIFF	351-600	R 1.23	R 1.41	R 1.61	R 1.84
BLOCK TARIFF	601+	R 1.43	R 1.66	R 1.90	R 2.17
Prepaid & Conventional (High prepaid)		R 85.50	R 95.93	R 109.59	R 125.20
BLOCK TARIFF	0-50	R 0.72	R 0.79	R 0.90	R 1.03
BLOCK TARIFF	51-350	R 0.91	R 1.00	R 1.14	R 1.31
BLOCK TARIFF	351-600	R 1.23	R 1.41	R 1.61	R 1.84
BLOCK TARIFF	601+	R 1.43	R 1.66	R 1.90	R 2.17
FREE ELECTRICITY	50 KWH	36.13	R 40.54	R 46.31	R 52.91
NGO, SPORT CLUB, PRE PAID BASIC CHAR		R 85.50	R 40.65	R 46.44	R 53.05
BLOCK TARIFF	0-50	R 0.72	R 0.79	R 0.90	R 1.03
BLOCK TARIFF	51-350	R 0.91	R 1.00	R 1.14	R 1.31
BLOCK TARIFF	351-600	R 1.23	R 1.41	R 1.61	R 1.84
BLOCK TARIFF	601+	R 1.43	R 1.66	R 1.90	R 2.17
Prepaid & Conventional (single ph	0-16kVA				
ergy Charge (Low Demand season)		R 138.00	R 154.84	R 176.88	R 202.07
ergy Charge (High Demand season)		R 172.00	R 192.98	R 220.46	R 251.86
Basic Charge		R 212.07	R 237.94	R 271.83	R 310.53
Prepaid & Conventional (2 & 3 phase)					
ergy Charge (Low Demand season)		R 135.84	R 152.41	R 174.12	R 198.91
ergy Charge (High Demand season)		R 172.00	R 192.98	R 220.46	R 251.86
Basic Charge		R 483.00	R 541.93	R 619.10	R 707.26
INDUSTRIAL TARIFFS					
Low Voltage Use	Below 1MVA				
ergy Charge (Low Demand season)		R 55.26	R 62.00	R 70.83	R 80.92
ergy Charge (High Demand season)		R 80.00	R 89.76	R 102.54	R 117.14
mand Charge (Low Demand season)		R 176.00	R 197.47	R 225.59	R 257.72
mand Charge (High Demand season)		R 183.20	R 205.55	R 234.82	R 268.26
Basic Charge		R 3 359.21	R 3 769.03	R 4 305.74	R 4 918.88
High Voltage Use	Above 1MVA				
ergy Charge (Low Demand season)		R 49.45	R 55.48	R 63.38	R 72.41
ergy Charge (High Demand season)		R 72.35	R 81.18	R 92.74	R 105.94
mand Charge (Low Demand season)		R 173.42	R 194.58	R 222.29	R 253.94
mand Charge (High Demand season)		R 183.20	R 205.55	R 234.82	R 268.26
Basic Charge		R 3 359.21	R 3 769.03	R 4 305.74	R 4 918.88

Sanitation and Impact of Tariff Increases

A tariff increase of 6 per cent for sanitation from 1 July 2015 is proposed.

<u>2015-16 TARIFFS - ANNEXURE C</u>	SCALE	2014/2015	2015/2016		2016/2017		2017/2018	
SEWERAGE			106.00%		106.00%		106.00%	
DOMESTIC, BUSINESS		133.62	8.02	141.64	8.50	150.13	9.01	159.14
SAKHILE		75.34	4.52	79.86	4.79	84.66	5.08	89.74
MORGENZON		48.90	2.93	51.84	3.11	54.95	3.30	58.25
INDUSTRIAL - ADDITIONAL SEWERAGE PER KL		5.42	0.33	5.74	0.34	6.09	0.37	6.45

Waste Removal and Impact of Tariff Increases

Currently solid waste removal is not operating effectively, efficiently and economically. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The Municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles, increases in the employee related cost (overtime).

A 6 per cent increase in the waste removal tariff is proposed from 1 July 2015. Higher increases will not be viable in 2015/16 owing to the significant increases implemented in previous financial years as well as the overall impact of higher than inflation increases of other services.

<u>2015-16 TARIFFS - ANNEXURE C</u>	2014/2015	2015/2016		2016/2017		2017/2018	
REFUSE	7.50%	106.00%		106.00%		106.00%	
DOMESTIC - STANDERTON	85.09	5.11	90.20	5.41	95.61	5.74	101.35
DOMESTIC - SAKHILE	60.80	3.65	64.45	3.87	68.32	4.10	72.42
DOMESTIC - MORGENZON	59.67	3.58	63.25	3.79	67.04	4.02	71.07
BUSINESS - STANDERTON	222.88	13.37	236.26	14.18	250.43	15.03	265.46
BUSINESS - MORGENZON	118.59	7.12	125.70	7.54	133.25	7.99	141.24
BULK	1256.08	75.36	1331.44	79.89	1411.33	84.68	1496.01
VACUUM TANKS PER 5KL OR PART TH	40.22	2.41	42.63	2.56	45.19	2.71	47.90
VACCUM TANKS BASIC CHARGE	283.58	17.01	300.59	18.04	318.63	19.12	337.75

Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

MP305 Lekwa - Supporting Table SA14 Household bills									
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Rand/cent						% incr.			
Monthly Account for Household									
- 'Middle Income Range'									
Rates and services charges:									
Property rates	404.48	106.18	111.55	119.92	119.92	106.0%	127.12	145.22	165.90
Electricity : Basic levy	64.25	71.34	76.55	82.20	82.20	112.2%	92.23	105.37	120.37
Electricity : Consumption	940.50	1 045.00	1 121.29	1 204.15	1 204.15	112.2%	1 351.05	1 543.44	1 763.23
Water: Basic levy	23.54	24.61	25.86	27.79	27.79	106.0%	29.46	33.66	38.45
Water: Consumption	157.68	166.80	175.24	188.38	188.38	106.0%	199.69	228.12	260.61
Sanitation	111.96	117.71	123.67	132.94	132.94	106.0%	140.92	160.98	183.91
Refuse removal	49.23	57.48	60.39	64.92	64.92	106.0%	68.81	78.61	89.81
sub-total	1 751.64	1 589.12	1 694.54	1 820.31	1 820.31	10.4%	2 009.28	2 295.40	2 622.27
VAT on Services									
Total large household bill:	1 751.64	1 589.12	1 694.54	1 820.31	1 820.31	10.4%	2 009.28	2 295.40	2 622.27
% increase/-decrease		(9.3%)	6.6%	7.4%	-		10.4%	14.2%	14.2%
Monthly Account for Household									
- 'Affordable Range'									
Rates and services charges:									
Property rates	288.92	75.84	79.64	85.61	85.61	106.0%	90.75	103.67	118.43
Electricity : Basic levy	64.25	71.34	76.55	82.20	82.20	112.2%	92.23	105.37	120.37
Electricity : Consumption	445.50	495.00	531.14	570.39	570.39	112.2%	639.97	731.11	835.21
Water: Basic levy	23.54	24.61	25.86	27.79	27.79	106.0%	29.46	33.66	38.45
Water: Consumption	124.83	132.05	138.73	149.14	149.14	106.0%	158.08	180.60	206.31
Sanitation	111.96	117.71	123.67	132.94	132.94	106.0%	140.92	160.98	183.91
Refuse removal	49.23	57.48	60.39	64.92	64.92	106.0%	68.81	78.61	89.81
sub-total	1 108.23	974.03	1 035.96	1 112.99	1 112.99	9.6%	1 220.23	1 393.99	1 592.49
VAT on Services									
Total small household bill:	1 108.23	974.03	1 035.96	1 112.99	1 112.99	9.6%	1 220.23	1 393.99	1 592.49
% increase/-decrease		(12.1%)	6.4%	7.4%	-		9.6%	14.2%	14.2%
Monthly Account for Household									
- 'Indigent' Household receiving									
Rates and services charges:									
Property rates	173.35	182.03	192.22	206.63	206.63	106.0%	219.03	250.22	285.85
Electricity : Basic levy	64.25	74.39	79.62	85.50	85.50	112.2%	95.93	109.60	125.20
Electricity : Consumption					-	112.2%	-	-	-
Water: Basic levy	23.54	24.61	25.86		-	106.0%	-	-	-
Water: Consumption	56.42	59.22	62.54	67.16	67.16	106.0%	71.19	81.32	92.90
Sanitation	111.96	117.71	124.30	133.49	133.49	106.0%	141.50	161.65	184.66
Refuse removal	45.58	57.48	60.39		-	106.0%	-	-	-
sub-total	475.10	515.44	544.92	492.78	492.78	7.1%	527.65	602.79	688.63
VAT on Services	34.86	36.97							
Total small household bill:	509.96	552.41	544.92	492.78	492.78	7.1%	527.65	602.79	688.63
% increase/-decrease		8.3%	(1.4%)	(9.6%)	-		7.1%	14.2%	14.2%

Operating Expenditure Framework

The budget expenditure framework for the 2015/16 budget is informed by the following:

- Repairs and maintenance backlogs;
- Balancing the budget (operating expenditure should not exceed operating revenue unless there are existing uncommitted cash-backed reserves to fund any deficit);
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- Strict adherence to the principle of no project plan no budget. If there is no business plan no funding allocation can be made.
- Funding the capital budget and other core services by operational gains and efficiencies.

The total anticipated expenditure to be incurred amounts to R 730 138 719.

In line with MFMA circular 55 & 70 the municipality is urged to step up its efforts to combat waste, inefficiency and pay special attention to cost containing measures and controlling unnecessary spending on nice-to-have items and non-essential activities. This should be done in conjunction with the cabinet resolution of the 23th October 2013 that cost containment measures must be implemented to eliminate waste, reprioritise spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and events costs as well as costs for accommodation.

Due to the financial constraints of the municipality though a provision has been made for depreciation the municipality does not have sufficient cash to replace the aging assets after the depreciation has been written off. In terms of the norms and standard set by National Treasury the municipality should provide at least 8% for Repairs and Maintenance and at least 40% of the capital budget should be towards the renewal of existing assets.

MP305 Lekwa - Table A4 Budgeted Financial Performance (revenue and expenditure)								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Expenditure By Type								
Employee related costs	101 586	114 990	117 725	127 068	123 424	145 767	155 136	165 130
Remuneration of councillors	7 889	8 417	9 367	10 503	10 503	11 136	11 136	11 136
Debt impairment	39 082	77 099	47 227	90 818	68 362	68 915	70 983	73 467
Depreciation & asset	60 891	121 508	128 005	139 196	115 520	95 530	98 396	101 840
Finance charges	1 176	14 219	16 757	764	771	786	810	838
Bulk purchases	167 691	186 519	198 026	213 085	213 085	242 748	250 030	258 781
Other materials	4 154	2 995	4 798	5 089	5 820	5 296	5 472	5 689
Contracted services	21 854	23 250	23 224	26 340	39 019	97 325	98 520	99 835
Transfers and grants	20 898	41 647	14 535	11 393	5 105	2 108	2 171	2 247
Other expenditure	39 713	37 621	57 814	58 793	52 129	60 528	60 646	63 026
Loss on disposal of PPE								
Total Expenditure	464 933	628 264	617 479	683 050	633 739	730 140	753 301	781 990

Employee related Cost

The employee related cost have increased by R 22 million in order to fund technical or critical positions that are vacant. The salary increase negotiations are still underway, a provision for salary increase of 6.8% though National Treasury is proposing a 5.4% increase which is linked to inflation. The past salary increase have not been less than 6% or higher than 10% in the recent years. Any difference in the salary increase that is below 6.8% or higher than 6.8% will be provided for in the 2015-16 adjustment budget. Furthermore it should be noted that the filling of vacant positions also attracts other cost associated with filling of those which includes but not limited to advertising cost, office equipment and office space. While priorities will still be given to position that have in impact on service delivery, preference will also be given to positons that will reduce overtime. The current Municipal structure in order to ensure the following:

1. The structure is still relevant
2. The structure is responsive to service delivery
3. Identify any gaps or areas of over staffing

The overtime worked by employees continuous to be a challenge that the municipality is faced with. Employees continue to work in excess of 40 hours per month which is in contravention of the collective agreements and this further poses further risk to the municipality which includes but not limited to financial loss suffered for irregular payments of overtime, due to fatigue employees may be injured whilst at work. The provision for overtime is R 10 million for the 2015-16 financial period which is expected to increase to R 12 million in the 2017-18 financial period. The allocation shows a decrease when compared to the 2011-12 outcome as well as the adjustment budget of 2014-15. The low allocation is mainly based on the introduction of job cards which employees would have to complete every day as well as ensuring that employees are discouraged from working overtime in excess of 40 hours per month.

The Municipality has provided R 21.7 million to fill critical and vacant position which will have a direct impact on service delivery, efficient, and optimal administration of the Municipality. There are 71 vacant and critical position that require to be filled urgently. The recruitment turnaround time needs to be improved as some of the position have been vacant in excess of 12 months.

The Municipality has provided R 2.5 million for the employment of temporary workers, of which they should either be confirmed as permanent workers or laid off in terms of the amended labour relations act.

An 8% increase has been provided for the Council Remuneration in line with the Officer Bearers Act as well as the recent Council Upper Limit Gazette.

MP305 Lekwa - Supporting Table SA22 Summary councillor and staff benefits								
Summary of Employee and Councillor remuneration	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
	A	B	C	D	E	G	H	I
Councillors (Political Office Bearers plus Other)								
Basic Salaries and Wages	4 714	4 375	5 079	6 308	6 308	6 858	6 858	6 858
Pension and UIF Contributions	824	1 055	949	946	946	1 029	1 029	1 029
Medical Aid Contributions	127	191	313		—			
Motor Vehicle Allowance	1 830	1 975	2 107	2 407	2 407	2 407	2 407	2 407
Cellphone Allowance	387	803	480	669	669	669	669	669
Other benefits and allowances	6	19	439	173	173	173	173	173
Sub Total - Councillors	7 889	8 417	9 367	10 503	10 503	11 136	11 136	11 136
% increase		6.7%	11.3%	12.1%	—	—	—	—
Senior Managers of the Municipality								
Basic Salaries and Wages	1 917	5 339	2 741	4 829	5 714	5 372	5 721	6 093
Pension and UIF Contributions			816	922	922	967	1 030	1 097
Medical Aid Contributions				326	326	325	346	368
Motor Vehicle Allowance			107	228	228	128	136	145
Other benefits and allowances					—	83	88	94
Sub Total - Senior Managers of	1 917	5 339	3 664	6 304	7 190	6 875	7 322	7 798
% increase		178.5%	(31.4%)	72.1%	14.0%	—	6.5%	6.5%
Other Municipal Staff								
Basic Salaries and Wages	48 730	68 156	72 469	74 962	68 434	92 762	98 792	105 213
Pension and UIF Contributions	12 348	16 835	13 972	16 651	15 332	18 627	19 838	21 128
Medical Aid Contributions	5 866	4 747	6 631	6 997	7 183	6 971	7 424	7 906
Overtime	13 704	5 127	13 993	10 712	14 214	10 697	11 392	12 133
Motor Vehicle Allowance	4 894	3 347	3 586	5 730	5 964	4 044	4 307	4 587
Cellphone Allowance	1 580	155		669	740	115	123	131
Housing Allowances	381	436		328	405	428	456	485
Other benefits and allowances	2 464	1 964	2 892	3 496	3 448	3 464	3 690	3 929
Payments in lieu of leave	623	221			—	372	396	422
Long service awards	1 192	245	520	1 447	457	1 411	1 502	1 600
Sub Total - Other Municipal Sta	91 781	101 234	114 062	120 991	116 177	138 892	147 920	157 535
% increase		10.3%	12.7%	6.1%	(4.0%)	—	6.5%	6.5%

Depreciation and Debt Impairment

Though this are not cash items all efforts should be made to ensure that this items are cash backed. Debt impairment relates to revenue that could be collected from customer. The debt impairment provision is R 68 million with the view that the current systems put in place to ensure that credit control and debt collections are implemented continuously and without compromise. The provision for debt impairment is based on an average none collection of revenue of 29% of the service charges generated.

Depreciations relates to the reduction in the useful life assets over time. The depreciation should be cash backed to allow for the municipality to be to replace the assets once the determined useful life of the assets has been depleted. The depreciation provision is R 95 million. This further indicates that additional provision should be made for the assets renewal as well as repairs and maintenance.

Bulk Purchases

MP305 Lekwa - Table A4 Budgeted Financial Performance (revenue and expenditure)								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Expenditure By Type								
Bulk purchases	167 691	186 519	198 026	213 085	213 085	242 748	250 030	258 781

Bulk purchases has increased with 44% (R 75 million) from R 167 million in 2011-12 financial period to R 242 million in the 2015-16 financial period. The high increase is mainly on the electricity bulk purchases were Eskom is continuously provided an increase above 6%.

Other Materials and Repairs and Maintenance

Though the level of inventory has decreased a provision is made to have inventory in hand. A provision for inventory amounting to R 5 million has been made in order to reduce interruption that might arise as a result of delays in procuring materials in instance where there's a breakdown.

Though the operating budget has been reduced immensely but no sufficient provision has been made for repairs and maintenance of the municipal assets.

In terms of NT circular 66 and 70 repairs and maintenance as a percentage of PPE (carrying value) should be at 8%. Though the repairs & maintenance should contribute 8% the Though the repairs & maintenance is steadily growing R 15 million in the 2011-12 audit outcome to R 31 million in the 2015-6 budget .

The percentage for the 2015/16 budget is below the prescribed norm. The main reason for this non-compliance is the current cash flow problem at the Municipality in terms of which expenditure inclusive of repairs and maintenance has been reduced in line with realistically expected revenue streams. This is not sustainable in the medium to long term and the Municipality needs to address this as matter of urgency.

MP305 Lekwa - Supporting Table SA34c Repairs and maintenance expenditure by asset class								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Repairs and maintenance expenditure by Asset Class/Sub-class								
Infrastructure	8 147	6 919	23 869	9 845	12 585	18 751	17 164	17 159
Infrastructure - Road transport	1 380	557	8 435	1 386	1 685	2 000	–	–
<i>Roads, Pavements & Bridges</i>	1 380	557	8 435	1 386	1 685	2 000	–	–
Infrastructure - Electricity	3 798	3 413	9 374	5 360	7 800	12 700	12 991	12 841
<i>Transmission & Reticulation</i>	3 474	3 035	8 990	4 440	6 000	9 700	9 991	10 341
<i>Street Lighting</i>	324	378	384	920	1 800	3 000	3 000	2 500
Infrastructure - Water	1 836	2 209	2 197	2 250	2 650	3 551	3 658	3 786
<i>Reticulation</i>	1 836	2 209	2 197	2 250	2 650	3 551	3 658	3 786
Infrastructure - Sanitation	1 132	740	3 863	850	450	500	515	533
<i>Sewerage purification</i>	1 132	740	3 863	850	450	500	515	533
Other assets	7 086	6 678	7 210	7 048	7 368	8 973	8 365	8 907
General vehicles	3 585	2 466	4 361	3 100	3 088	3 037	3 195	3 563
Specialised vehicles	–	–	–	–	–	–	–	–
Plant & equipment	1 590	1 306	1 834	2 004	2 118	2 650	1 937	2 019
Computers - hardware/equipment	254	13	29	52	30	31	32	33
Furniture and other office equipment	21	4	–	12	–	–	–	–
Other Buildings	432	336	169	268	255	476	339	357
Other Land	356	1	–	28	–	–	–	–
Other	848	2 553	816	1 585	1 877	2 780	2 862	2 935
Intangibles	521	260	327	515	545	3 699	3 810	3 944
Computers - software & programmes	521	260	327	515	545	3 699	3 810	3 944
Other (list sub-class)	–	–	–	–	–	–	–	–
Total Repairs and Maintenance	15 754	13 857	31 406	17 408	20 498	31 423	29 339	30 010

Contracted Services

Contracted services amounts to R 97 million which includes a provision of R 70 million for the repayment of the smart meters. Most of the routine work been outsourced to service providers as well as an absence of service level agreements governing some contracts. This also indicates that the municipality has an over reliance on consultants to perform the routine work. This is also influenced by high vacant positions of personnel in various sections, inadequate competency levels of current employees.

Contracts should be reviewed to ensure that there's value for money and where found lacking contracts need to be terminated or advertised to appoint new service providers. In general Municipalities are required to phase out consultants as far as possible. Furthermore as part of phasing out consultants the municipality should embark on an exercise for skills audit to identify where there are skills gaps and shortages in order to ensure that adequate and relevant capacity is provided to employees. The process of preparing job descriptions, delegations register and procedure manuals is completed as in most cases consultants are used in areas where no specific person is assigned to carry out the specific duties.

Contracted services can be an effective, efficient and economical means of rendering services as this allow for a concentration of skills, professionalism & expertise but the process should be managed closely as to ensure this practice is not perpetuate indefinitely and become costly.

Operating Deficit

The operating deficit has also decreased with R 33 million over the 5 year period and is further expected to decrease to R 18 million by 2017-18 MTREF.

MP305 Lekwa - Table A4 Budgeted Financial Performance (revenue and expenditure)								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Total Revenue (excluding capital transfers and	343 115	431 172	422 526	490 216	536 829	641 288	698 413	763 739
Total Expenditure	464 933	628 264	617 479	683 050	633 739	730 140	753 301	781 990
Surplus/(Deficit)	(121 818)	(197 092)	(194 953)	(192 834)	(96 910)	(88 851)	(54 888)	(18 251)

It should be noted that it is possible to further reduce the budget without affecting service delivery. This budget should be seen as a survival budget. Unless the municipality can improve its revenue bases the situation will continue to deteriorate.

In terms of National Treasury the municipality may budget for operating deficit over the medium term, however this should be temporary circumstances especially in for current implementation of GRAP 17, which may result in increased “depreciation and asset impairment” that is not fully accommodated in the municipality’s tariffs and as a result drives the operating budget into deficit. Ideally the operating deficit should be equivalent to the depreciation then gradually be phased off into a moderate surplus in the future.

It will take approximately 24 months for the municipality to stabilise the financial position and have at least a funded budget. This will not cover any arrears amounts as well as any additional crisis expenditure (impetuous repairs & maintenance of assets or any other expenditure that is not planned). For the municipality to stabilise the financial situation it will require commitment, dedication from both officials, councillors as well as the communities at large. Provincial Treasury & COGTA have also committed to assisting the municipality in various revenue enhancing strategies. It is also important to have designated personnel assigned specific responsibilities with clear time frames and also to have continuity in administration and leadership positions.

Capital expenditure

Project Description	Total Planned Expenditure for 2015/2016	Planned Expenditure for 2016/2017	Planned Expenditure for 2017/2018
Upgrading of the Standerton Waste Water Treatment Works	R 15 000 000.00	R 15 000 000.00	R 15 000 000.00
Installation of Bulk Water Infrastructure and Replacement of AC pipes in Lekwa Local Municipality	R 9 000 000.00	R 9 000 000.00	R 9 933 200.00
Installation of Boreholes in Lekwa Municipality in farm areas	R 1 500 000.00	R 1 870 150.00	R 2 000 000.00
Installation of Sanitation services in Rural areas of Lekwa LM	R 1 306 150.00	R 2 000 000.00	R 2 000 000.00
Electrification of RDP house in Standerton Extension 8	R 1 700 000.00		
Development of New Cemetery for Lekwa LM	R 623 000.00		
Rehabilitation of River Park	R 550 000.00		
Electrification of 53 rural houses	R 1 500 000.00		
Conduct Environmental Impact Assessment for Development of a New Cell at Morgenzon Landfill Site	R 1 000 000.00		
Total	R 32 179 150.00	R 27 870 150.00	R 28 933 200.00

For 2015/16 an amount of R 24 million has been appropriated for the development of infrastructure which represents 74.5 per cent of the total capital budget. In the outer years this amount totals R 24 million, 86.11 per cent and R 24.9 million, 86.17 per cent respectively for each of the financial years. The Municipality continuous to invest its resources on Water & Sanitation projects. 74.5% of the 2015-16 budget is allocated for renewal of existing assets. The allocation towards renewal of existing assets will increase to 86.17% by 2017-18 financial period.

Some of the salient projects to be undertaken over the medium-term includes, amongst others:

- Upgrading of the Standerton Waste Water Treatment Works
- Installation of Bulk Water Infrastructure and Replacement of AC pipes in Lekwa Local Municipality
- Installation of Boreholes in Lekwa Municipality in farm areas
- Installation of Sanitation services in Rural areas of Lekwa LM
- Electrification of RDP house in Standerton Extension 8
- Development of New Cemetery for Lekwa LM
- Rehabilitation of River Park
- Electrification of 53 rural houses
- Conduct Environmental Impact Assessment for Development of a New Cell at Morgenzon Landfill Site

Annual Budget Tables

The following pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2015/16 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes* on the facing page.

MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. Consequently Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations. This cannot be achieved in one financial year. But over the MTREF there is progressive improvement in the level of cash-backing of obligations. It is anticipated that the goal of having all obligations cash-back will be achieved by 2017/18.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor.

MP305 Lekwa - Table A1 Budget Summary

Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year	Budget Year +1	Budget Year +2
Financial Performance								
Property rates	37 301	66 365	38 731	52 600	60 540	64 778	69 312	74 164
Service charges	198 599	246 422	245 717	307 553	309 302	408 808	454 158	504 724
Investment revenue	726	837	1 299	255	1 018	1 089	1 165	1 247
Transfers recognised - operational	73 251	81 942	83 760	90 235	90 235	85 557	87 026	90 755
Other own revenue	33 238	35 606	53 019	39 573	75 735	81 057	86 751	92 849
Total Revenue (excluding capital transfers and contributions)	343 115	431 172	422 526	490 216	536 829	641 288	698 413	763 739
Employee costs	101 586	114 990	117 725	127 068	123 424	145 767	155 136	165 130
Remuneration of councillors	7 889	8 417	9 367	10 503	10 503	11 136	11 136	11 136
Depreciation & asset impairment	60 891	121 508	128 005	139 196	115 520	95 530	98 396	101 840
Finance charges	1 176	14 219	16 757	764	771	786	810	838
Materials and bulk purchases	171 845	189 514	202 824	218 175	218 906	248 044	255 503	264 471
Transfers and grants	20 898	41 647	14 535	11 393	5 105	2 108	2 171	2 247
Other expenditure	100 648	137 969	128 265	175 950	159 510	226 769	230 149	236 328
Total Expenditure	464 933	628 264	617 479	683 050	633 739	730 140	753 301	781 990
Surplus/(Deficit)	(121 818)	(197 092)	(194 953)	(192 834)	(96 910)	(88 851)	(54 888)	(18 251)
Surplus/(Deficit) after capital transfers & contributions	(121 818)	(197 092)	(194 953)	(192 834)	(96 910)	(88 851)	(54 888)	(18 251)
Surplus/(Deficit) for the year	(121 818)	(197 092)	(194 953)	(192 834)	(96 910)	(88 851)	(54 888)	(18 251)
Capital expenditure & funds sources								
Capital expenditure	44 115	35 449	–	34 784	78 900	32 179	27 870	28 933
Transfers recognised - capital	40 950	31 212	–	33 484	73 350	29 679	27 870	28 933
Internally generated funds	3 165	4 238	–	1 300	5 550	2 500	–	–
Total sources of capital funds	44 115	35 449	–	34 784	78 900	32 179	27 870	28 933
Financial position								
Total current assets	76 384	78 726	120 472	130 670	130 670	220 731	280 585	336 402
Total non current assets	1 992 218	1 906 016	1 788 186	1 808 527	1 808 527	1 680 528	1 612 898	1 543 481
Total current liabilities	181 422	278 322	372 817	321 639	321 639	404 595	440 537	435 709
Total non current liabilities	89 260	92 289	101 382	94 269	94 269	111 520	122 672	134 939
Community wealth/Equity	1 797 920	1 614 132	1 434 460	1 523 288	1 523 288	1 385 144	1 330 274	1 309 235
Cash flows								
Net cash from (used) operating	43 310	25 247	60 064	(20 653)	(1 156 825)	22 340	54 988	91 186
Net cash from (used) investing	(35 331)	(22 217)	(47 105)	(34 784)	(78 900)	(32 179)	(27 870)	(28 933)
Net cash from (used) financing	(1 647)	(1 285)	(1 102)	–	–	–	–	–
Cash/cash equivalents at the year	15 273	17 017	28 874	(25 470)	(1 181 449)	27 042	54 159	116 412
Cash backing/surplus reconciliation								
Cash and investments available	15 273	16 300	29 660	34 922	34 922	51 984	94 964	132 218
Application of cash and investment	159 142	251 842	502 229	318 850	318 850	529 730	582 777	641 508
Balance - surplus (shortfall)	(143 869)	(235 543)	(472 569)	(283 928)	(283 928)	(477 746)	(487 813)	(509 289)
Asset management								
Asset register summary (WDV)	1 992 218	1 906 016	1 788 186	1 808 527	1 808 527	1 680 528	1 612 898	1 543 481
Depreciation & asset impairment	60 891	121 508	128 005	139 196	115 520	95 530	98 396	101 840
Renewal of Existing Assets	–	–	–	5 000	–	24 000	24 000	24 933
Repairs and Maintenance	15 754	13 857	31 406	17 408	20 498	31 423	29 339	30 010

MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 13 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table does not include capital revenues (Transfers recognised – capital) and reconciles to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is the case for Electricity, Water and Waste water functions, but not the Waste management function. As already noted above, the municipality will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.
4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under the Corporate Services.

MP305 Lekwa - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue - Standard								
<i>Governance and administration</i>	131 091	164 097	142 694	160 255	175 304	178 399	186 367	197 050
Executive and council	70 044	79 570	81 327	85 053	85 053	83 045	84 463	88 042
Budget and treasury office	60 296	84 118	60 956	73 794	88 861	94 900	101 418	108 488
Corporate services	751	409	411	1 409	1 390	454	486	520
<i>Community and public safety</i>	431	535	1 951	3 093	707	756	809	866
Community and social services	(779)	357	293	306	320	342	366	391
Sport and recreation	54	18	9	12	10	10	11	12
Public safety	1 157	160	1 648	2 775	378	404	432	463
<i>Economic and environmental services</i>	12 460	19 554	31 440	18 565	50 732	52 464	56 137	60 067
Planning and development	10	33	20	1 715	1 721	23	25	27
Road transport	12 450	19 521	31 420	16 850	49 010	52 441	56 112	60 040
<i>Trading services</i>	199 134	246 986	246 441	308 302	310 087	409 668	455 099	505 757
Electricity	137 214	175 388	181 134	228 587	228 759	322 648	361 987	406 127
Water	30 875	37 705	32 365	41 115	42 785	45 780	48 985	52 414
Waste water management	21 248	21 718	23 004	24 731	24 499	26 214	28 049	30 012
Waste management	9 798	12 176	9 938	13 869	14 043	15 026	16 078	17 204
Total Revenue - Standard	343 115	431 172	422 526	490 216	536 829	641 288	698 413	763 739
Expenditure - Standard								
<i>Governance and administration</i>	176 573	290 555	216 885	274 329	227 324	216 333	224 099	233 251
Executive and council	44 385	45 588	39 019	184 347	147 917	137 568	141 974	147 113
Budget and treasury office	116 236	229 040	162 565	74 827	61 154	60 552	63 105	66 069
Corporate services	15 951	15 927	15 301	15 155	18 252	18 213	19 020	20 069
<i>Community and public safety</i>	37 091	38 333	35 524	37 491	41 205	38 511	40 722	43 544
Community and social services	13 599	14 662	12 774	14 019	16 970	13 176	14 164	15 182
Sport and recreation	6 982	7 334	7 044	7 967	7 341	6 950	7 319	7 971
Public safety	15 712	15 804	15 446	12 632	16 606	15 069	15 718	16 650
Housing	6	7	31	2 872	83	3 106	3 305	3 517
Health	792	527	229	–	206	210	216	224
<i>Economic and environmental services</i>	21 039	21 416	31 613	36 699	28 481	30 192	28 836	30 621
Planning and development	332	179	1 042	5 449	4 414	7 368	7 830	8 325
Road transport	20 707	21 237	30 571	31 250	24 067	22 825	21 006	22 296
<i>Trading services</i>	230 230	277 960	333 456	334 531	336 729	445 103	459 643	474 574
Electricity	180 683	201 554	227 501	244 286	249 133	356 103	364 976	375 045
Water	26 846	32 002	31 171	46 684	46 417	46 096	47 716	49 599
Waste water management	9 651	9 481	12 522	21 046	18 617	20 418	21 343	22 376
Waste management	13 051	34 923	62 263	22 515	22 562	22 487	25 607	27 554
Total Expenditure - Standard	464 933	628 264	617 479	683 050	633 739	730 140	753 301	781 990
Surplus/(Deficit) for the year	(121 818)	(197 092)	(194 953)	(192 834)	(96 910)	(88 851)	(54 888)	(18 251)

MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

- Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote.

MP305 Lekwa - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue by Vote								
Vote 1 - Council & Executive	70 044	79 570	81 327	85 053	85 053	83 045	84 463	88 042
Vote 2 - Budget & Treasury	60 296	84 118	60 956	73 794	88 861	94 900	101 418	108 488
Vote 3 - Corporate	751	409	411	1 409	1 390	454	486	520
Vote 4 - Community Services	431	535	1 951	3 093	707	756	809	866
Vote 5 - Roads	12 450	19 521	31 420	16 850	49 010	52 441	56 112	60 040
Vote 6 - Planning & Development	10	33	20	1 715	1 721	23	25	27
Vote 7 - Electricity	137 214	175 388	181 134	228 587	228 759	322 648	361 987	406 127
Vote 8 - Water	30 875	37 705	32 365	41 115	42 785	45 780	48 985	52 414
Vote 9 - Waste Water Management	21 248	21 718	23 004	24 731	24 499	26 214	28 049	30 012
Vote 10 - Waste Management	9 798	12 176	9 938	13 869	14 043	15 026	16 078	17 204
Total Revenue by Vote	343 115	431 172	422 526	490 216	536 829	641 288	698 413	763 739
Expenditure by Vote to be appropriated								
Vote 1 - Council & Executive	44 385	45 588	39 019	184 347	147 917	137 568	141 974	147 113
Vote 2 - Budget & Treasury	116 236	229 040	162 565	74 827	61 154	60 552	63 105	66 069
Vote 3 - Corporate	15 951	15 927	15 301	15 155	18 252	18 213	19 020	20 069
Vote 4 - Community Services	37 091	38 333	35 524	37 491	41 205	38 511	40 722	43 544
Vote 5 - Roads	20 707	21 237	30 571	31 250	24 067	22 825	21 006	22 296
Vote 6 - Planning & Development	332	179	1 042	5 449	4 414	7 368	7 830	8 325
Vote 7 - Electricity	180 683	201 554	227 501	244 286	249 133	356 103	364 976	375 045
Vote 8 - Water	26 846	32 002	31 171	46 684	46 417	46 096	47 716	49 599
Vote 9 - Waste Water Management	9 651	9 481	12 522	21 046	18 617	20 418	21 343	22 376
Vote 10 - Waste Management	13 051	34 923	62 263	22 515	22 562	22 487	25 607	27 554
Total Expenditure by Vote	464 933	628 264	617 479	683 050	633 739	730 140	753 301	781 990
Surplus/(Deficit) for the year	(121 818)	(197 092)	(194 953)	(192 834)	(96 910)	(88 851)	(54 888)	(18 251)

MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure)

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise R 473 million (73.8%) of the total revenue mix. This increases to R 523 million and R 578 million in the respective two outer financial years of the MTREF. A notable trend is the increase in the total percentage revenue generated from rates and sale of electricity which increases from 50 per cent in 2011/12 to 60 per cent in 2015/16. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity.

Property rates contributes 10 per cent or R 64 million rand of the total revenue mix and increases to R 74 million by 2017/18. The other sources of revenue is 'other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, transport fees and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers decreased from R 87 million for 2014-15 to R85 million in the 2015/16 financial year and steadily increases to R 90 million by 2015/16. The average growth of 6% over the 2015/16 MTREF is less than the 14% growth experienced in the 2011-12 MTREF. This is a clear indication that the National Government is advocating to the Municipality that they should not rely on grants received from National Government but should rather strengthen their own internal revenue generating mechanism.

The employee related cost have increased by R 22 million in order to fund technical or critical positions that are vacant. The salary increase negotiations are still underway, a provision for salary increase of 6.8% though National Treasury is proposing a 5.4% increase which is linked to inflation. The past salary increase have not been less than 6% or higher than 10% in the recent years. Any difference in the salary increase that is below 6.8% or higher than 6.8% will be provided for in the 2015-16 adjustment budget.

Bulk purchases has increased with 44% (R 75 million) from R 167 million in 2011-12 financial period to R 242 million in the 2015-16 financial period. The high increase is mainly on the electricity bulk purchases where Eskom is continuously provided an increase above 6%.

Though the level of inventory has decreased a provision is made to have inventory in hand. A provision for inventory amounting to R 5 million has been made in order to reduce interruption that might arise as a result of delays in procuring materials in instance where there's a breakdown.

Though the operating budget has been reduced immensely but no sufficient provision has been made for repairs and maintenance of the municipal assets.

In terms of NT circular 66 and 70 repairs and maintenance as a percentage of PPE (carrying value) should be at 8%. Though the repairs & maintenance should contribute 8% the Though the repairs & maintenance is steadily growing R 15 million in the 2011-12 audit outcome to R 31 million in the 2015-6 budget .

The percentage for the 2015/16 budget is below the prescribed norm. The main reason for this non-compliance is the current cash flow problem at the Municipality in terms of which expenditure inclusive of repairs and maintenance has been reduced in line with realistically expected revenue streams. This is not sustainable in the medium to long term and the Municipality needs to address this as matter of urgency. Contracted services amounts to R 97 million which includes a provision of R 70 million for the repayment of the smart meters. Most of the routine work been outsourced to service providers as well as an absence of service level agreements governing some contracts. This also indicates that the municipality has an over reliance on consultants to perform the routine work. This is also influenced by high vacant positions of personnel in various sections, inadequate competency levels of current employees.

MP305 Lekwa - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand								
<u>Revenue By Source</u>								
Property rates	37 301	66 365	38 731	52 600	60 540	64 778	69 312	74 164
Property rates - penalties & collection charges								
Service charges - electricity revenue	136 699	174 886	180 418	227 984	227 984	321 798	361 057	405 106
Service charges - water revenue	30 862	37 664	32 363	40 978	42 782	45 777	48 981	52 410
Service charges - sanitation revenue	21 248	21 707	23 004	24 730	24 499	26 214	28 049	30 012
Service charges - refuse revenue	9 790	12 164	9 932	13 861	14 037	15 020	16 071	17 196
Service charges - other								
Rental of facilities and equipment	(353)	651	564	595	589	630	675	722
Interest earned - external investments	726	837	1 299	255	1 018	1 089	1 165	1 247
Interest earned - outstanding debtors	18 450	14 110	18 273	18 200	24 262	25 960	27 778	29 722
Dividends received								
Fines	2 166	271	1 755	2 907	502	544	590	640
Licences and permits								
Agency services	12 412	18 591	31 283	16 331	48 857	52 277	55 937	59 853
Transfers recognised - operational	73 251	81 942	83 760	90 235	90 235	85 557	87 026	90 755
Other revenue	563	1 983	1 144	1 540	1 525	1 644	1 771	1 912
Gains on disposal of PPE								
Total Revenue (excluding capital transfers and contributions)	343 115	431 172	422 526	490 216	536 829	641 288	698 413	763 739
<u>Expenditure By Type</u>								
Employee related costs	101 586	114 990	117 725	127 068	123 424	145 767	155 136	165 130
Remuneration of councillors	7 889	8 417	9 367	10 503	10 503	11 136	11 136	11 136
Debt impairment	39 082	77 099	47 227	90 818	68 362	68 915	70 983	73 467
Depreciation & asset impairment	60 891	121 508	128 005	139 196	115 520	95 530	98 396	101 840
Finance charges	1 176	14 219	16 757	764	771	786	810	838
Bulk purchases	167 691	186 519	198 026	213 085	213 085	242 748	250 030	258 781
Other materials	4 154	2 995	4 798	5 089	5 820	5 296	5 472	5 689
Contracted services	21 854	23 250	23 224	26 340	39 019	97 325	98 520	99 835
Transfers and grants	20 898	41 647	14 535	11 393	5 105	2 108	2 171	2 247
Other expenditure	39 713	37 621	57 814	58 793	52 129	60 528	60 646	63 026
Loss on disposal of PPE								
Total Expenditure	464 933	628 264	617 479	683 050	633 739	730 140	753 301	781 990
Surplus/(Deficit)	(121 818)	(197 092)	(194 953)	(192 834)	(96 910)	(88 851)	(54 888)	(18 251)
Transfers recognised - capital								
Contributions recognised - capital	-	-	-	-	-	-	-	-
Contributed assets								
Surplus/(Deficit) after capital transfers & contributions	(121 818)	(197 092)	(194 953)	(192 834)	(96 910)	(88 851)	(54 888)	(18 251)

MBRR Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations.

The capital programmes are funded from capital grants and transfers, internally generated funds from current year surpluses. The allocation of capital grants from the National government has decline over the MTREF

MP305 Lekwa - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Capital expenditure - Vote								
Multi-year expenditure to be appropriated								
Vote 1 - Council & Executive	–	–	–	–	–	–	–	–
Vote 2 - Budget & Treasury	–	–	–	–	–	–	–	–
Vote 3 - Corporate	–	–	–	–	–	–	–	–
Vote 4 - Community Services	–	–	–	–	–	–	–	–
Vote 5 - Roads	–	–	–	–	–	–	–	–
Vote 6 - Planning & Development	–	–	–	–	–	–	–	–
Vote 7 - Electricity	–	–	–	–	–	–	–	–
Vote 8 - Water	–	–	–	–	–	10 500	10 870	11 933
Vote 9 - Waste Water Management	–	–	–	–	–	16 306	17 000	17 000
Vote 10 - Waste Management	–	–	–	–	–	–	–	–
Capital multi-year expenditure s	–	–	–	–	–	26 806	27 870	28 933
Single-year expenditure to be appropriated								
Vote 1 - Council & Executive	13	–	–	–	–	–	–	–
Vote 2 - Budget & Treasury	74	4 238	–	1 300	5 550	–	–	–
Vote 3 - Corporate	2 544	–	–	–	–	–	–	–
Vote 4 - Community Services	6 587	5 486	–	–	3 677	1 173	–	–
Vote 5 - Roads	29 896	10 276	–	–	2 043	–	–	–
Vote 6 - Planning & Development	–	–	–	–	–	–	–	–
Vote 7 - Electricity	2 102	2 032	–	–	2 184	3 200	–	–
Vote 8 - Water	832	661	–	16 500	23 022	–	–	–
Vote 9 - Waste Water Management	1 973	5 121	–	16 984	41 960	–	–	–
Vote 10 - Waste Management	93	7 637	–	–	465	1 000	–	–
Capital single-year expenditure s	44 115	35 449	–	34 784	78 900	5 373	–	–
Total Capital Expenditure - Vote	44 115	35 449	–	34 784	78 900	32 179	27 870	28 933
Capital Expenditure - Standard								
Governance and administration	2 632	4 238	–	1 300	5 550	–	–	–
Executive and council	13	–	–	–	–	–	–	–
Budget and treasury office	74	4 238	–	1 300	5 550	–	–	–
Corporate services	2 544	–	–	–	–	–	–	–
Community and public safety	6 587	5 486	–	–	3 677	1 173	–	–
Community and social services	–	–	–	–	1 667	623	–	–
Sport and recreation	6 587	5 486	–	–	2 010	550	–	–
Economic and environmental	29 896	10 276	–	–	2 043	–	–	–
Road transport	29 896	10 276	–	–	2 043	–	–	–
Trading services	5 000	15 450	–	33 484	67 630	31 006	27 870	28 933
Electricity	2 102	2 032	–	–	2 184	3 200	–	–
Water	832	661	–	16 500	23 022	10 500	10 870	11 933
Waste water management	1 973	5 121	–	16 984	41 960	16 306	17 000	17 000
Waste management	93	7 637	–	–	465	1 000	–	–
Total Capital Expenditure - Standard	44 115	35 449	–	34 784	78 900	32 179	27 870	28 933
Funded by:								
National Government	40 950	31 212	–	33 484	51 350	29 679	27 870	28 933
Provincial Government	–	–	–	–	20 000	–	–	–
District Municipality	–	–	–	–	2 000	–	–	–
Transfers recognised - capital	40 950	31 212	–	33 484	73 350	29 679	27 870	28 933
Internally generated funds	3 165	4 238	–	1 300	5 550	2 500	–	–
Total Capital Funding	44 115	35 449	–	34 784	78 900	32 179	27 870	28 933

MBRR Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table 66 is supported by an extensive table of notes (SA3 which can be found on page 102) providing a detailed analysis of the major components of a number of items, including:
 - Call investments deposits;
 - Consumer debtors;
 - Property, plant and equipment;
 - Trade and other payables;
 - Provisions non current;
 - Changes in net assets; and
 - Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position

MP305 Lekwa - Table A6 Budgeted Financial Position

Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand								
ASSETS								
Current assets								
Cash			29 660	6 985	6 985	4 000	6 800	6 500
Call investment deposits	15 273	23 780	–	27 936	27 936	47 984	88 164	125 718
Consumer debtors	51 617	45 315	55 672	87 350	87 350	128 567	141 424	155 566
Other debtors	7 172	7 167	32 523	6 306	6 306	37 127	40 840	44 924
Current portion of long-term receivables			–			–	–	–
Inventory	2 322	2 464	2 618	2 093	2 093	3 053	3 358	3 694
Total current assets	76 384	78 726	120 472	130 670	130 670	220 731	280 585	336 402
Non current assets								
Long-term receivables								
Investments								
Investment property	10 250	9 881	12 746	10 869	10 869	12 246	11 746	11 246
Investment in Associate								
Property, plant and equipment	1 981 968	1 896 136	1 775 440	1 797 658	1 797 658	1 668 281	1 601 151	1 532 235
Agricultural								
Biological								
Intangible								
Other non-current assets								
Total non current assets	1 992 218	1 906 016	1 788 186	1 808 527	1 808 527	1 680 528	1 612 898	1 543 481
TOTAL ASSETS	2 068 602	1 984 743	1 908 658	1 939 197	1 939 197	1 901 258	1 893 483	1 879 883
LIABILITIES								
Current liabilities								
Bank overdraft		7 481						
Borrowing	1 350	1 102	–	–	–	–	–	–
Consumer deposits	2 592	2 705	2 813	2 789	2 789	3 164	3 481	3 829
Trade and other payables	177 480	261 754	364 415	318 850	318 850	395 283	430 294	424 442
Provisions		5 280	5 589			6 148	6 762	7 439
Total current liabilities	181 422	278 322	372 817	321 639	321 639	404 595	440 537	435 709
Non current liabilities								
Borrowing	1 037	–	–	–	–	–	–	–
Provisions	88 222	92 289	101 382	94 269	94 269	111 520	122 672	134 939
Total non current liabilities	89 260	92 289	101 382	94 269	94 269	111 520	122 672	134 939
TOTAL LIABILITIES	270 682	370 611	474 198	415 908	415 908	516 115	563 209	570 648
NET ASSETS	1 797 920	1 614 132	1 434 460	1 523 288	1 523 288	1 385 144	1 330 274	1 309 235
COMMUNITY WEALTH/EQUITY								
Accumulated Surplus/(Deficit)	1 797 920	1 614 132	1 434 460	1 523 288	1 523 288	1 385 144	1 330 274	1 309 235
Reserves	–	–	–	–	–	–	–	–
Minorities' interests								
TOTAL COMMUNITY WEALTH	1 797 920	1 614 132	1 434 460	1 523 288	1 523 288	1 385 144	1 330 274	1 309 235

MBRR Table A7 - Budgeted Cash Flow Statement

MP305 Lekwa - Table A7 Budgeted Cash Flows								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
CASH FLOW FROM OPERATING ACTIVITIES								
Receipts								
Property rates, penalties & collection charges	34 940	24 465	22 380			44 956	49 212	52 656
Service charges	176 132	293 248	232 173	298 584		359 715	401 885	447 478
Other revenue	12 378					55 096	58 973	63 127
Government - operating	75 805	79 067	81 320	89 270	91 783	85 557	87 026	90 755
Government - capital	35 331	49 542	69 176	33 484	72 050	29 679	27 870	28 933
Interest	19 176	14 949	19 573	4 856	25 280	13 031	13 943	14 919
Payments								
Suppliers and employees	(306 303)	(417 791)	(342 695)	(446 083)	(1 345 174)	(562 800)	(580 940)	(603 597)
Finance charges	(4 149)	(18 233)	(21 862)	(764)	(764)	(786)	(810)	(838)
Transfers and Grants						(2 108)	(2 171)	(2 247)
NET CASH FROM/(USED) OPERATING ACT	43 310	25 247	60 064	(20 653)	(1 156 825)	22 340	54 988	91 186
CASH FLOWS FROM INVESTING ACTIVITIES								
Receipts								
Proceeds on disposal of PPE		954				-	-	-
Decrease (Increase) in non-current debtors		(2 086)	(2 286)			-	-	-
Payments								
Capital assets	(35 331)	(21 085)	(44 819)	(34 784)	(78 900)	(32 179)	(27 870)	(28 933)
NET CASH FROM/(USED) INVESTING ACTI	(35 331)	(22 217)	(47 105)	(34 784)	(78 900)	(32 179)	(27 870)	(28 933)
CASH FLOWS FROM FINANCING ACTIVITIES								
Receipts								
Short term loans						-	-	-
Borrowing long term/refinancing						-	-	-
Increase (decrease) in consumer deposits						-	-	-
Payments								
Repayment of borrowing	(1 647)	(1 285)	(1 102)			-	-	-
NET CASH FROM/(USED) FINANCING ACTI	(1 647)	(1 285)	(1 102)	-	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HE	6 331	1 744	11 857	(55 438)	(1 235 725)	(9 839)	27 117	62 253
Cash/cash equivalents at the year begin:	8 941	15 273	17 017	29 968	54 276	36 881	27 042	54 159
Cash/cash equivalents at the year end:	15 273	17 017	28 874	(25 470)	(1 181 449)	27 042	54 159	116 412

MBRR Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

MP305 Lekwa - Table A8 Cash backed reserves/accumulated surplus reconciliation								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year	Budget Year +1	Budget Year +2
Cash and investments available								
Cash/cash equivalents at the year end	15 273	17 017	28 874	(25 470)	(1 181 449)	27 042	54 159	116 412
Other current investments > 90 days	—	(717)	786	60 391	1 216 371	24 942	40 804	15 806
Non current assets - Investments	—	—	—	—	—	—	—	—
Cash and investments available:	15 273	16 300	29 660	34 922	34 922	51 984	94 964	132 218
Application of cash and investments								
Unspent conditional transfers	10 994	21 940	3 847	27 936	27 936	17 744	19 518	21 470
Unspent borrowing	—	—	—	—	—	—	—	—
Statutory requirements								
Other working capital requirements	148 148	229 902	498 382	290 914	290 914	511 986	563 259	620 037
Other provisions								
Long term investments committed	—	—	—	—	—	—	—	—
Reserves to be backed by cash/investments								
Total Application of cash and investments	159 142	251 842	502 229	318 850	318 850	529 730	582 777	641 508
Surplus(shortfall)	(143 869)	(235 543)	(472 569)	(283 928)	(283 928)	(477 746)	(487 813)	(509 289)

MBRR Table A9 - Asset Management

MP305 Lekwa - Table A9 Asset Management								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year	Budget Year +1	Budget Year +2
CAPITAL EXPENDITURE								
Total New Assets	44 115	35 449	–	29 784	78 900	8 179	3 870	4 000
Infrastructure - Road transport	29 570	10 169	–	–	2 043	–	–	–
Infrastructure - Electricity	2 102	2 032	–	–	2 184	3 200	–	–
Infrastructure - Water	832	107	–	11 500	18 022	1 500	1 870	2 000
Infrastructure - Sanitation	1 973	5 781	–	16 984	46 960	1 306	2 000	2 000
Infrastructure - Other	93	7 637	–	–	465	1 000	–	–
Infrastructure	34 570	25 726	–	28 484	69 673	7 006	3 870	4 000
Community	6 557	5 486	–	–	3 677	1 173	–	–
Other assets	2 988	4 238	–	1 300	5 550	–	–	–
Total Renewal of Existing Assets	–	–	–	5 000	–	24 000	24 000	24 933
Infrastructure - Water	–	–	–	5 000	–	9 000	9 000	9 933
Infrastructure - Sanitation	–	–	–	–	–	15 000	15 000	15 000
Infrastructure - Other	–	–	–	–	–	–	–	–
Infrastructure	–	–	–	5 000	–	24 000	24 000	24 933
Total Capital Expenditure	–	–	–	–	–	–	–	–
Infrastructure - Road transport	29 570	10 169	–	–	2 043	–	–	–
Infrastructure - Electricity	2 102	2 032	–	–	2 184	3 200	–	–
Infrastructure - Water	832	107	–	16 500	18 022	10 500	10 870	11 933
Infrastructure - Sanitation	1 973	5 781	–	16 984	46 960	16 306	17 000	17 000
Infrastructure - Other	93	7 637	–	–	465	1 000	–	–
Infrastructure	34 570	25 726	–	33 484	69 673	31 006	27 870	28 933
Community	6 557	5 486	–	–	3 677	1 173	–	–
Other assets	2 988	4 238	–	1 300	5 550	–	–	–
TOTAL CAPITAL EXPENDITURE	44 115	35 449	–	34 784	78 900	32 179	27 870	28 933
ASSET REGISTER SUMMARY - PPE (WDV)								
Investment properties	10 250	9 881	12 746	10 869	10 869	12 246	11 746	11 246
Other assets	1 981 968	1 896 136	1 775 440	1 797 658	1 797 658	1 668 281	1 601 151	1 532 235
TOTAL ASSET REGISTER SUMMARY	1 992 218	1 906 016	1 788 186	1 808 527	1 808 527	1 680 528	1 612 898	1 543 481
EXPENDITURE OTHER ITEMS								
Depreciation & asset impairment	60 891	121 508	128 005	139 196	115 520	95 530	98 396	101 840
Repairs and Maintenance by Asset	15 754	13 857	31 406	17 408	20 498	31 423	29 339	30 010
Infrastructure - Road transport	1 380	557	8 435	1 386	1 685	2 000	–	–
Infrastructure - Electricity	3 798	3 413	9 374	5 360	7 800	12 700	12 991	12 841
Infrastructure - Water	1 836	2 209	2 197	2 250	2 650	3 551	3 658	3 786
Infrastructure - Sanitation	1 132	740	3 863	850	450	500	515	533
Infrastructure - Other	–	–	–	–	–	–	–	–
Infrastructure	8 147	6 919	23 869	9 845	12 585	18 751	17 164	17 159
Other assets	7 607	6 939	7 537	7 563	7 913	12 672	12 175	12 850
TOTAL EXPENDITURE OTHER ITEMS	76 645	135 365	159 411	156 604	136 018	126 954	127 735	131 850
Renewal of Existing Assets as % of PPE	0.0%	0.0%	0.0%	14.4%	0.0%	74.6%	86.1%	86.2%
Renewal of Existing Assets as % of PPE	0.0%	0.0%	0.0%	3.6%	0.0%	25.1%	24.4%	24.5%
R&M as a % of PPE	0.8%	0.7%	1.8%	1.0%	1.1%	1.9%	1.8%	2.0%
Renewal and R&M as a % of PPE	1.0%	1.0%	2.0%	1.0%	1.0%	3.0%	3.0%	4.0%

MBRR Table A10 - Basic Service Delivery Measurement

MP305 Lekwa - Table A10 Basic service delivery measurement								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
	Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Household service targets								
<u>Water:</u>								
Piped water inside dwelling	17 154	17 154	17 154	17 160	17 160	17 180	17 200	17 225
Piped water inside yard (but not in dwelling)	10 993	10 993	11 133	11 147	11 147	11 647	12 642	13 347
Using public tap (at least min.service level)	1 432	1 432	1 522	1 780	1 780	1 920	1 980	2 210
Other water supply (at least min.service level)	184	184	184					
<i>Minimum Service Level and Above sub-total</i>	29 763	29 763	29 993	30 087	30 087	30 747	31 822	32 782
Using public tap (< min.service level)	125	125	125	125				
Other water supply (< min.service level)								
No water supply	731	731	641	1 500 000		1 500 000	1 870 150	2 000 000
<i>Below Minimum Service Level sub-total</i>	856	856	766	1 500 125	–	1 500 000	1 870 150	2 000 000
Total number of households	30 619	30 619	30 759	1 530 212	30 087	1 530 747	1 901 972	2 032 782
<u>Sanitation/sewerage:</u>								
Flush toilet (connected to sewerage)	25 984	25 984	26 007	26 037	26 037	26 537	27 537	28 287
Flush toilet (with septic tank)	682	682	682	682	682	682	682	682
Chemical toilet	230	230	230	–	–	–	–	–
Pit toilet (ventilated)	1 464	1 464	1 464	–	–	–	–	–
Other toilet provisions (> min.service level)	516	714	924	1 005	1 005	1 105	1 174	1 257
<i>Minimum Service Level and Above sub-total</i>	28 876	29 074	29 307	27 724	27 724	28 324	29 393	30 226
Bucket toilet	316	316	316	–	–	–	–	–
Other toilet provisions (< min.service level)	597	597	597	–	–	–	–	–
No toilet provisions	1 279	1 087	871	1 190 000		1 306 150	2 000 000	2 000 000
<i>Below Minimum Service Level sub-total</i>	2 192	2 000	1 784	1 190 000	–	1 306 150	2 000 000	2 000 000
Total number of households	31 068	31 074	31 091	1 217 724	27 724	1 334 474	2 029 393	2 030 226

PART 2 – SUPPORTING DOCUMENTATION

OVERVIEW OF BUDGET PROCESS

Political Oversight of Budget Process

The concept of political oversight over the budget process is an important one and it is the key to ensuring that strategy informs the budget.

The political oversight role of the Mayor is contained in Section 53 (1)(a) and (b) of the Municipal Finance Management Act (MFMA). It requires that the Mayor must provide political guidance over the budget process and the priorities that guide the preparation of the budget. It further requires that the Mayor co-ordinate the revision of the IDP and the preparation of the annual budget and to determine how the IDP is to be taken into account for the purpose of the budget.

The demands on the Municipality to address service delivery backlogs and to improve service delivery to all of its citizens, within current financial resources, are challenging. Political oversight of the budget process is therefore essential to ensure that the priorities of the municipality are addressed through budget allocations.

Schedule of Key Deadlines Relating of Budget Process

One of the objectives of the budget timetable is to ensure the development/review of the IDP and the budget and also to ensure that a funded budget is tabled for consideration and approval. The timetable schedule for the compilation of the 2015/16 budget cycle was approved by Council during August 2013 in compliance with the MFMA.

Process for Consultations with Stakeholder Groups and Outcomes [MFMA 21(1)(b)]

Section 22 of the MFMA requires that after tabling of the annual budget in Council, the municipality must make public the draft budget and also invite the local communities to submit representations thereon. Accordingly the tabling of the draft budget in the Council on 30 March 2015 will be followed by the following activities:

- The Draft budgeted document to be published on the website generally to be distributed to libraries and other municipal offices to allow the wide invitation of comments and representations to the draft budget
- Submission of the Draft budget to Provincial and National Treasuries as well as Department of Provincial and Local Government
- Public meetings to be held in various wards during April and May 2014

OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP

This Integrated Development Plan (IDP) is prepared in compliance with the requirements of Chapter 5, particularly Section 25 of Local Government Municipal Systems Act (32 of 2000), which obliges a municipal council to adopt a single, all inclusive and strategic plan for the development of the municipality, within a prescribed period after the start of its elected term. It outlines a development agenda for the municipality for the next five years. The Lekwa Local Municipality has undertaken its IDP process for the 2015/6 financial year.

Council's Integrated Development Plan (IDP) to inform the 2015/16 financial year's budget is also tabled to Council today. The budget is aligned to the revised IDP. Due to the current financial situation of Lekwa Local Municipality we can only fund capital projects through the Municipal Infrastructure Grant which amounts to R 35.829 million. A few smaller projects will be funded from internally generated funds.

MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

7.1. OBJECTIVES OF THE PERFORMANCE MANAGEMENT SYSTEM

The objective of institutionalising a performance management system beyond legislative compliance requirements is to:

- Facilitate increased accountability
- Facilitate learning and improvement
- Provide early warning signals
- Facilitate decision-making processes

The objectives are also for the performance management system to serve as a primary mechanism to monitor, review and improve the implementation of Municipality IDP through a performance management system.

7.2. PRINCIPLES GOVERNING PERFORMANCE MANAGEMENT

In developing a performance management system, the Municipality will be guided by the following principles:

- I. Both development and implementation of the system must be driven by Council and the executive management
- II. The system must be owned by all relevant stakeholders within the municipality and be supported the other spheres of government
- III. Communication must occur at all levels on an on-going basis
- IV. The value of PMS must be understood by all role-players and stakeholders
- V. The system must place the community at the centre of local government processes
- VI. The system must be developmental and not punitive
- VII. The system must be developed and implemented within the available capacity and resources of the municipality
- VIII. The system should align to other municipal initiatives, systems and processes
- IX. The system must provide learning and growth opportunities through the coaching and review processes.

The PMS must be implemented in such a manner that it:

- A. Is developmental and not punitive in nature as employees will be provided with career opportunities and be allowed space to be creative and innovative in performing and improving their work;
- B. Provides a clear and detailed framework for:
 - (i) reaching agreement on performance contracts
 - (ii) clear KPIs, targets and standards that are agreed upon
 - (iii) a balance between organisational needs and employee rights
- C. Allows for joint responsibility and accountability based on mutual trust and respect
- D. Is cost-effective and practical while enhancing improvement on quality
- E. Is applied consistently and documents and records both formal and informal feedback
- F. Is applied equitably and fairly
- G. Allows for honesty and transparency in its application
- H. Provides clear linkages between performance, recognition and reward
- I. Provides a clear guide on dealing with poor or non-performance
- J. Focuses on critical work activities

The following diagram outlines the process flow in respect of how planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed and also the roles of different stakeholders.

7.3. POLICY AND LEGISLATIVE FRAMEWORK

The Performance Management System is located within a legislative and policy framework and is influenced by the following:

- The White paper on Local Government (1998)
- The Municipal Systems Act (2000)
- The Municipal Planning and Performance Management Regulations (2001)

WHITE PAPER ON LOCAL GOVERNMENT 1998

The White Paper on Local Government (1998) nationally introduced Performance Management System to Local Government, as a tool to ensure developmental Local Government. The White Paper adds that: Involving communities in developing some municipal key performance indicators increases the accountability of the municipality. Some communities may prioritize the amount of time it takes a municipality to answer a query, others will prioritize the cleanliness of an area or the provision of water to a certain number of households. Whatever the priorities, by involving communities in setting key performance indicators and reporting back to communities on performance, accountability is to increase, and public trust in local government system enhanced.”

BATHO PELE (1998)

The word Batho-Pele is a Sotho word, which means people first. The White Paper on transforming public service delivery puts forward eight (8) principles for good public service whose priority is Batho-Pele. The following are such principles.

CONSULTATION

Citizens should be consulted about the level and quality of public service they receive, and where possible, should be given a choice about the services which are provided.

SERVICE STANDARDS

Citizens should know what standards of service to expect.

ACCESS

All citizens should have equal access to the services to which they are entitled.

COURTESY

Citizens should be treated with courtesy and consideration.

INFORMATION

Citizens should be given full and accurate information about the public services they are entitled to.

OPENNESS AND TRANSPARENCY

Citizens should know how departments are run, how resources are spent, and who is in charge of particular services.

REDRESS

If the promised standard of service is not delivered, citizens should be offered an apology, a full explanation, and a speedy and effective remedy, and when complaints are made, citizens should receive a sympathetic, positive response.

VALUE FOR MONEY

Public services should be provided economically and efficiently in order to give citizens the best possible value for money. Importantly, the Batho-Pele White Paper notes that the development of a service orientated culture requires the active participation of the wider community. Municipalities need constant feedback from service-users if they are to improve their operations.”

THE MUNICIPAL SYSTEMS ACT (2000)

This Act requires of all municipalities to:

- Develop a performance management system
- Set targets, monitor and review performance based on indicators linked to their Integrated Development Plan
- Publish an annual report on performance for councillors, staff, the public and other spheres of government.
- Incorporate and report on set of general indicators prescribed nationally by the minister responsible for local government.
- Conduct an internal audit on performance before tabling the report.
- Involve the community in setting indicators and targets and reviewing municipal performance.
- Have their annual report on performance audited by the Auditor-General.

MUNICIPAL PLANNING AND PERFORMANCE MANAGEMENT REGULATIONS (2001)

The Municipal Planning and Performance (2001) is a set of regulations which clarifies the process how the Performance Management System and Integrated Development Plan should be conducted.

7.4. LEKWA’S PERFORMANCE MANAGEMENT SYSTEM PROCESS: HOW IT WILL HAPPEN

The Performance Management System must have a detailed process planning (see the following figure) regarding the specific responsibilities delegated and time frames determined in conjunction with the legislation. Lekwa process of managing performance will involve the following core basic components:

1. PLANNING

This will involve the annual drafting and adoption of the Performance Management System Framework by Council as part of the Integrated Development Plan.

2. IMPLEMENTATION

This means putting the performance plan into action, to implement the targets agreed upon.

3. MEASURING

This is the quarterly evaluation of reports and progress achieved on specific projects/targets.

4. MONITORING

This is about constant submission, if possible, at least quarterly, reports and evaluation during and after every phase.

5. REPORTING

This involves giving the report about the outcomes of performance in trying to achieve the set objectives and targets as set out in the Municipality's Integrated Development Plan via the Ward Committees.

6. STAKEHOLDERS

These are responsible bodies or parties that will see to the driving of the Performance Management Process within Lekwa.

OVERVIEW OF BUDGET-RELATED POLICIES

It is a legislative requirement that municipal budget for the following fiscal year, together with finance related policies will be reviewed tabled and adopted by council.

The following financial policies have been changed:

1. The Supply Chain Management Policy

The policy ensures that all employees of Lekwa Local Municipality has proper guidelines to follow when involved in procurement processes.

2. Property Rates Policy

This policy guides the annual setting (or revision) of property rates. Details pertaining to the applications of the various property rates are published in the Provincial Gazette and the municipality's schedule of tariffs, which must be read in conjunction with this policy.

In imposing the rate in the rand for each annual operating budget component, the municipality shall grant exemptions, rebates and reductions to the respective categories of properties and owners as allowed for in this policy.

The policy also guides the valuation of properties within the jurisdiction of the Municipality.

3. Asset Management Policy

The purpose of the policy should promote efficient and effective monitoring and control of assets according to the MFMA.

The changes have been made in term of Generally Recognised Accounting Practice (GRAP)

4. Indigent Support Policy

The key purpose of an indigent subsidy policy is to ensure that households with no or lower income are not denied a reasonable service, and on the contrary the Municipality is not financially burdened with non-payment of services. Provided that grants are received and funds are available, the indigent subsidy policy should remain intact. To achieve the purpose it is important to set a fair threshold level, and then to provide a fair subsidy of tariffs.

The consumer, in order to qualify as an indigent, needs to complete the necessary documentation as required and agree to regulations and restrictions stipulated by Lekwa Local Municipality.

5. Bad Debt Provision & Write-off Policy

The key purpose of this policy is to provide criteria for the provision of working capital as a result of non-payment and for the write-off of debt under certain circumstances.

Council acknowledges that in order to deliver services in a sustainable manner, that revenue collection be managed in terms of Councils Debt Collection and Credit Control Policy having due regard of its limited financial resources and the need to manage cash flows. Council therefore accepts its duty to prepare financial statements that truly reflects the financial position of the Municipality.

6. Petty Cash Policy

The policy is established to ensure that the management of expenditure of a municipality is effective and controlled manner.

7. Credit Control and Debt Collection Policy

The purpose of this policy is to use innovative, cost effective, efficient and appropriate methods to manage credit control and debt collection of the municipality

8. Tariff Policy

This policy cover, among other things, the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.

9. Budget Policy

The main importance of budget policy is to address allocation of resources, and how to efficiency use resources and attaining economic stability and growth, and redistribution of income. It includes the Virement Policy that is designed to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials.

10. S & T Policy

The purpose of this policy is to lay down general rules for the payment of subsistence and traveling allowances or costs for the attendance of approved events outside the municipal area of Lekwa Local Municipality.

OVERVIEW OF BUDGET ASSUMPTIONS

Inflation Forecast and National Treasury guidelines

Inflation is forecast to remain within the target range of 5.6% to 5.4%, edging downward towards 2017. This was taken into account when the budget was compiled. Municipalities must take into account the multi-year Salary and Wage Collective Agreement for the period 1 July 2012 to 30 June 2015. Municipalities were advised by National Treasury to provide for increases related to salaries and wages pending the outcome of the salary negotiations. The increases were provided as follows

- 2015/16 – 6.8% (5.8% +1%)

- 2016/17 – 6.8% (5.4% + 1%)

- 2017/18 – 6.8% (5.4%+1%)

Electricity - Tariff increase of 12.20 % is allowed

- Increase in bulk purchases from Eskom is 14.20%

Water & Sanitation - cost reflective tariffs are to be implemented in 2016.

Solid Waste - cost reflective tariffs are to be implemented in 2016.

Free basic services to be provided to indigent households only

Renewal & Repairs & Maintenance of Existing assets:

- 40% of the 2015/16 capital budget should be for renewal of assets – if not the Municipality needs to motivate.

- If the amount budgeted for repairs & maintenance is less than 8% of asset value (write down value) the Municipality needs to motivate.

OVERVIEW OF BUDGET FUNDING

The main sources of revenue/funding are indicated in the table below:

MP305 Lekwa - Table A4 Budgeted Financial Performance (revenue and expenditure)								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue By Source								
Property rates	37 301	66 365	38 731	52 600	60 540	64 778	69 312	74 164
Service charges - electricity revenue	136 699	174 886	180 418	227 984	227 984	321 798	361 057	405 106
Service charges - water revenue	30 862	37 664	32 363	40 978	42 782	45 777	48 981	52 410
Service charges - sanitation revenue	21 248	21 707	23 004	24 730	24 499	26 214	28 049	30 012
Service charges - refuse revenue	9 790	12 164	9 932	13 861	14 037	15 020	16 071	17 196
Rental of facilities and equipment	(353)	651	564	595	589	630	675	722
Interest earned - external investments	726	837	1 299	255	1 018	1 089	1 165	1 247
Interest earned - outstanding debtors	18 450	14 110	18 273	18 200	24 262	25 960	27 778	29 722
Fines	2 166	271	1 755	2 907	502	544	590	640
Agency services	12 412	18 591	31 283	16 331	48 857	52 277	55 937	59 853
Transfers recognised - operational	73 251	81 942	83 760	90 235	90 235	85 557	87 026	90 755
Other revenue	563	1 983	1 144	1 540	1 525	1 644	1 771	1 912
Total Revenue (excluding capital transfers and contributions)	343 115	431 172	422 526	490 216	536 829	641 288	698 413	763 739

EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

Grants and subsidies from National and Provincial governments, as reported in the 2015 Division of Revenue Act and reflected in SA 19, have been included the 2015/16 budget and each allocation will utilised for the purpose as described below.

MP305 Lekwa - Supporting Table SA18 Transfers and grant receipts								
Description	2011/12	2012/13	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
RECEIPTS:								
Operating Transfers and Grants								
National Government:	73 178	84 124	87 830	87 568	87 568	85 557	87 026	90 755
Local Government Equitable Share	69 959	79 068	81 320	85 034	85 034	83 027	84 444	88 022
Finance Management	1 713	1 250	1 550	1 600	1 600	1 600	1 625	1 700
Municipal Systems Improvement	1 506	800	890	934	934	930	957	1 033
Other transfers/grants [insert desc]	–	3 006	4 070					
Total Operating Transfers and Grants	73 178	84 124	87 830	87 568	87 568	85 557	87 026	90 755
Capital Transfers and Grants								
National Government:	56 621	43 525	84 434	36 684	36 684	30 851	34 970	33 456
Municipal Infrastructure Grant (MIG)	53 783	41 780	59 004	33 994	33 994	27 978	28 970	30 456
Neighbourhood Development Partnership		1 745						
Integrated Electrification Programme	1 389			1 500	1 500	1 700	6 000	3 000
Expanded Public Works Programme	1 449			1 190	1 190	1 173		
Other capital transfers/grants [insert desc]			25 430					
Provincial Government:	–	–	–	–	20 000	–	–	–
Human Settlement					20 000			
District Municipality:	–	–	–	–	2 000	–	–	–
Rising Main Project					2 000			
Other grant providers:	–	–	–	–	–	–	–	–
Total Capital Transfers and Grants	56 621	43 525	84 434	36 684	58 684	30 851	34 970	33 456
TOTAL RECEIPTS OF TRANSFERS & GRANTS	129 799	127 649	172 264	124 252	146 252	116 408	121 996	124 211
<i>References</i>								

National Grant Allocations

Equitable Share

The equitable share is an unconditional grant and as such can be regarded as general revenue, however, it is a matter of co-operative governance that municipalities should prioritise its expenditure budget towards poor households and national priorities like free basic services.

Municipal Infrastructural Grant (MIG)

The Municipal Infrastructural Grant (MIG) is entering its tenth year of implementation in the 2015/16 financial year. It resulted from the consolidation of various capital grants for municipal infrastructure (CMIP, Water Services Projects, CBPWP, LEDF, BSRP and the Urban Transport Fund) into a new funding arrangement.

The Municipal Infrastructural Grant is a conditional grant which gives effect to national objectives to:

- Expand the delivery of basic services to all households, including the delivery of free basic services to poor households and other poverty alleviating objectives.
- Stimulate local economic development and job creation over the medium term.

The MIG funding will be utilised for the paving of internal roads, sporting facilities and high mast projects in areas falling within Lekwa Local Municipality.

Finance Management Grant

The Finance Management Grant is a capacity building grant provided by National Treasury to assist municipalities in building management planning, technical and financial management skills and capacity for effective service delivery.

It will be utilised for the upgrading of skills and capacity of the Finance officials for workshops and training programmes, funding financial programmes with a view to capacitate financial systems, as well as for the remuneration of the interns currently employed by the municipality and cover costs of their training and its facilities. There are currently seven interns employed.

Municipal Systems Improvement Grant

This grant is provided by the Department of Cooperative Governance and Traditional Affairs to assist municipalities to build in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government Systems Act, 2000 and other related legislation.

The grant may be apportioned for, depending on the submitted and approved activity plan, the engagement of ward committees, IDP review processes, implementation of Municipal Property Rates Act and GRAP conversion requirements

ALLOCATIONS AND GRANTS MADE BY LEKWA MUNICIPALITY

None.

COUNCILLOR AND EMPLOYEE BENEFITS

Information will be available in May 2015 when the Executive table the final budget for approval.

MONTHLY TARGET FOR REVENUE & EXPENDITURE & CSAH FLOW

Information will be available in May 2015 when the Executive table the final budget for approval.

ANNUAL SDBIP – INTERNAL DEPARTMENTS

The Annual SDBIP gives effect to the implementation of the IDP and Budget of the Municipality. The IDP Objectives, Key Performance Indicators and Targets aligned to the Budget within each Key Performance Area in the Multi-year Municipal Performance Plan informs the SDBIP for the 2015/16 financial year and breaks it up into quarterly targets.

The Budget should ensure the implementation of the strategic priorities of the Municipality through the allocation of financial resources. The Budget is not an implementation or management plan. The SDBIP therefore serves as a “contract” between the administration, council and the communities expressing the IDP Objectives (within each KPA) set by Council as quantifiable outputs that can be implemented by the administration in a specific financial year. This provides the basis for measuring performance in service delivery against end-of-year targets and implementing the budget.

The SDBIP is a layered plan with the top layer dealing with consolidated service delivery targets and in-year deadlines and linking such targets to the top management of the Municipality. Once the top-layer targets are set, the top management must then develop the next (lower) layer of detail of the SDBIP, by providing more detail on each output for which they are responsible for, and breaking up such outputs into smaller outputs and linking these to each junior manager.

“Top layer” SDBIP is used as a framework for the organisational Performance Management System. In terms of the individual performance management, the contracts for the Municipal Manager and section 56 managers have been implemented and the evaluation is done on a quarterly basis. As part of good governance the PMS will be introduced and cascaded down to the operational level in terms of operational KPI's and performance agreements for Section 56 managers. The implementation of the IDP and Budget is monitored, evaluated, reported and measured through the integrated

Performance Management System (PMS) is designed to ensure that the resources available to the Municipality are directed at the delivery of prioritised projects, programmes and operations that meet the agreed IDP Objectives. Monitoring, evaluating, measuring and reporting performance will also assist the Municipality:

- To make immediate and appropriate changes in the prioritized delivery process and to adjust resources accordingly;
- Identify and overcome major or systemic blockages in the delivery process and Guide future planning on development objectives and resource use

NB SDBIP – will be available in May 2015 when the Executive table the final budget for approval.

ANNUAL BUDGETS AND SERVICE DELIVERY AGREEMENTS – MUNICIPAL ENTITIES

None

CONTRACT HAVING FUTURE BUDGETARY IMPLICATIONS

None in terms of section 33 (1) that exceeds 3 years.

CAPITAL EXPENDITURE DETAIL

Project Description	Total Planned Expenditure for 2015/2016	Planned MIG Expenditure for 2016/2017	Planned MIG Expenditure for 2017/2018
Upgrading of the Standerton Waste Water Treatment Works	R 15 000 000.00	R 15 000 000.00	R 15 000 000.00
Installation of Bulk Water Infrastructure and Replacement of AC pipes in Lekwa Local Municipality	R 9 000 000.00	R 9 000 000.00	R 9 933 200.00
Installation of Boreholes in Lekwa Municipality in farm areas	R 1 500 000.00	R 1 870 150.00	R 2 000 000.00
Rooikoppen Sewer Network	R -		
Installation of Sanitation services in Rural areas of Lekwa LM	R 1 306 150.00	R 2 000 000.00	R 2 000 000.00
Electrification of RDP house in Standerton Extension 8	R 1 700 000.00		
Development of New Cemetery for Lekwa LM	R 623 000.00		
Rehabilitation of River Park	R 550 000.00		
Electrification of 53 rural houses	R 1 500 000.00		
Conduct Environmental Impact Assessment for Development of a New Cell at Morgenzon Landfill Site	R 1 000 000.00		
Total	R 32 179 150.00	R 27 870 150.00	R 28 933 200.00

LEGISLATION COMPLIANCE STATUS

Municipal Finance Management Act

The Municipal Finance Management Act, No. 56 of 2003 came into effect on 1 July 2004. The Lekwa Local Municipality was identified as a High Level Municipality, and as such had the responsibility of implementing the Act with few exemptions/delays allowed. The following main processes have been implemented in terms of the Municipal Finance Management Act:

- The budget process.
- Supply Chain Management. (Establishment of unit in progress)
- Conversion of Financial Statements to GRAP.
- Financial in-year reporting.
- Adjustment budgeting
- Annual reporting.
- Compilation and implementation of various policies.
- Compilation of procedural notes for main financial accounting processes.
- The budget and Treasury office has been established in accordance with the requirements (Implementation of new organogram for BTO in progress)
- Service Delivery and Budget Implementation plans are applied as monitoring tools
- Audit Committee has been established

Municipal Property Rates Act

The 2015/16 was a challenging budget year for Lekwa Local Municipality, with 01 July 2014 being the compulsory date of the second implementation of the Act and drafting of the rates policy & by-laws. To this end, the municipality is currently implementing the approved policy. The objection process has not been finalised to date and the Municipality is busy to finalise the section 53 notices to the objectors. The levying of agricultural land has not been implemented and the process to finalise the implementation thereof is also in progress.

Compliance with Circular 51: Municipal Budget and Reporting Regulations

The 2015/16 budget has been prepared to comply with the requirements of the enacted Municipal Budget and Reporting Regulations. It for this reason that Council is urged to acquaint itself with the format, since Council will be expected to scrutinize and approved the budget prepared in terms of Gazette 32141.

Other Legislation

Lekwa Local Municipality has complied with a number of other legislation, including the Local Government Municipal Systems Act, gazettes and circulars issued by National Treasuries on a continuous basis.

OTHER SUPPORTING DOCUMENTS

The other supporting documents will be available in May 2014 when the Executive table the final budget for approval.

ANNUAL BUDGETS OF MUNICIPAL ENTITIES ATTACHED TO THE MUNICIPALITY'S ANNUAL BUDGET

None

Municipal manager's quality certificate

I **Linda Bernard Tshabalala**, Municipal Manager of **Lekwa Local Municipality**, hereby certify that the Annual Budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

Print Name **Linda Bernard Tshabalala**

Municipal Manager of **Lekwa Local Municipality (MP305)**

Signature _____

Date **24 March 2015**